

Time to Grow

03/13/06

This question comes from the owner of 2 businesses, one distribution, one manufacturing. The businesses are up and running, have been for some years, and both are doing reasonably well – although it looks as if one of the companies may be getting stalled. Let's answer this question three ways: good management team, adequate capital, and a competitive advantage.

Build a management team and support staff that can expand and move forward as growth demands. Get the best people you can afford; people with lots of experience and skills. As one of our clients recently remarked, after upgrading an administrative position, "I never realized how much our last admin didn't know. It's nice to have someone can teach us how to do the things we have to do, in order to perform well." From a financial point of view, think about the contribution that each employee makes to the business. Are they contributing more than they cost? How do you measure that? These are critical questions to consider, as the company expands and you are less directly involved with each employee.

Think about your company at twice the size. Who will do the work in every area of the business: finance, sales, operations, marketing, technology, human resources. Make a list. Who among your

employees are up to the challenge of learning new skills, and who are likely to get left behind? Who is capable of playing a leadership role, and who tends to sit back and wait for you to take the lead? As the business grows, you want more and more people who are able to own their areas of the business, informing you, but not depending upon you, as owner, to help them get their job done.

It is important to recognize, as this owner apparently does, that the learning never stops. Your job is to expand the performance capacity of the company. Sometimes this means more education for existing staff, sometimes it means upgrading personnel or support services. You must spend time and money keeping staff and vendors up to snuff on all the current technical trends, administrative advancements, customer service enhancements, financial developments, potential to upgrade sales and marketing, to name a few. Remember that you, as owner, can influence your team to stretch. Acknowledging your staff and vendors will enhance their desire to do a better job for you. Holding people accountable for results is crucial.

As your management team develops more independence, it must also know how to prioritize, and you must keep those priorities in line with yours. Develop processes that can carry

out and sustain the plans you have developed. Keep it lean, straightforward and focused. Require regular reporting from every department. "Respect what you inspect" is a term you want to keep in mind. You, as owner, set the tone.

One of the things many owners struggle with, especially in growth phases, is balance. Balancing a private home life with a professional business life is important for everyone in the company. Time away from the business adds to your perspective. You need to be healthy, rested, and well exercised physically and mentally, in order to do the best job you can, running your business. The same is true for your employees. Encourage everyone to take time off, to have a home life, and to balance work hours with personal interests. This demonstrates that you, and all of your people, have control over the business rather than the business having control over you.

Now let's talk about capital. Look at your financial resources. Bigger dollars coming in means more to spend on staff, technical upgrades, and marketing. It also means more opportunity to make bigger mistakes, as well as enjoy bigger wins. Financial controls and depth of resources are crucial. Answer the following questions and you're well on your way to a sound financial program. How well can you control the

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business, financially? How good are your financial reporting tools? Do they give you an accurate picture, past, present, and future, of what's going on in the business? How many months of reserves do you have on hand? Who is in charge of finance, and how much can that person teach you about how to run the business in a fiscally sound manner?

Balancing growth, and the capacity to finance it, is a challenge to small businesses and middle-market CEOs alike. One of the biggest mistakes I see most owners make is that they underestimate the money they will need to fund their company's growth. They write a plan of best-case scenarios, or overlook downside risk. Be sure you clearly understand how much money your company will need to grow, until it is established and profitable at the next growth platform. How much money do you think you will need? Double it! Preferably in the form of reserves. If you do need the funds, you won't have to put plans on hold while you go looking for funding. If it turns out that you don't need the funds, you're ahead of the game.

Typically, the need for more money in a medium-sized business is less about working capital, than it is about supporting the desire to grow. Lenders want to see a clear link between borrowing and increased revenue

and profit. They also want to see owners with personal equity invested in the business to make sure the owners have some 'skin in the game'. And they want to lend against hard assets, like equipment, or against assets like receivables. That makes it harder for service companies to get funding.

Be aware that if you are thinking of looking for funds, according to lending figures released by the SBA, loans to entrepreneurs are down in both volume and amount. SBA 7 (a) loan sizes have declined by 30%, from an average of \$200,000 in 2001 to \$160,000 at present. At the same time, lender fees in the last year increased by 110%; for a loan up to \$2 million, small businesses now pay over \$50,000, or 2.5%, at closing. Volume of 7(a) loans is also down by 13% in a year-over-year comparison. This is significant, because the SBA's 7(a) loan program is reported to provide around 30% of all long term funding to small businesses. (Committee on Small Business)

Of course, you can always self fund your growth, if you have been able to set aside reserve funds. Self funding is often the most profitable, as you avoid paying interest to the bank. If you do loan money to the company, be sure to record it as a loan, with regular payments back to you, of principal and interest.

Like it or not, as your company grows, your customers will begin to compare you to the "other guys", your competitors. You can often compete with the big guys, on a smaller scale, by placing additional emphasis on customer service, or by providing an enhancement the big guys can't or won't provide. One of the strongest competitive advantages of any business is to provide customers with exactly what they want, and to focus on customers who want what you have. Do your research, or get experts to do the research for you. You are about to spend years expanding the company; don't launch a product or service on a whim. Be sure your offer has a good chance of achieving traction at a reasonable price point, so that you make enough money to get paid for all of your hard work.

In order to establish a competitive edge you sometimes need to be very creative. Try looking at an established product or service in a new light or from a different angle. You don't necessarily need to reinvent the wheel to perk your customer's interest. Make the most of your entrepreneurial talents focusing on your current customers. You can start to develop brand new markets for your product, without having to deal with taking sales away from competitors.

You may find a small niche that no one else is capitalizing on. Take your product right to the



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heart of your customers and prospects with testimonials and endorsements. Give incentives for referrals that turn into new customers. Be active in your community to show your customers that you care about what concerns and affects them. After all it affects you too.

Once you succeed in launching a new or enhanced product or service with existing customers, you're often in a stronger position to expand by taking customers away from your competitors. As you expand, be careful about waking sleeping giants. You want to stay under the radar of the big guys as long as you can. Remember, competitors may have deeper pockets, and may be able to slash prices or provide incentives to lure their customers back. You don't want to see all your profits go down the drain in a price war. When you go into a competitor's marketplace, be prepared to deal with competitive threats, by knowing how your company is different, from a customer value point of view. Invest enough in marketing to differentiate your offer, so that customers clearly understand why they buy from your company.

Looking for a good book? Try Every Business is a Growth Business: How Your Company Can Prosper Year After Year, by Ram Charan and Noel Tichy, who also wrote The Leadership Engine, How Winning Companies Build Leaders At Every Level.

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